J. Harris & Sons, Limited

ANNUAL REPORT 1974

J. HARRIS & SONS, LIMITED

FINANCIAL HIGHLIGHTS

	1974	1973
Revenue	**$40.9m**	$20.4m
Net Profits	**$ 5,839,082**	$ 1,331,561
Per Share	**$2.12**	$.49
Cash Flow from Operations	**$ 6,271,135**	$ 1,609,048
Per Share	**$2.28**	$.60
Working Capital	**$ 9,884,518**	$ 2,766,367
Shareholders Equity	**$ 10,904,128**	$ 3,367,182
Per Share	**$3.97**	$1.25
Average Shares outstanding	**$ 2,749,877**	$ 2,683,974

OFFICERS
Milton E. Harris *Chairman & President*
James Wilson *Vice President Marketing*
Glenn Riddell *Vice President Manufacturing*
Bruce Timmerman, *C.A. Vice President Finance*
Lorie Waisberg *Secretary-Treasurer*

DIRECTORS
Gordon Atlin, Q.C. *Toronto, Ontario*
William J. Disher *Toronto, Ontario*
C.H. Franklin *Toronto, Ontario*
Joseph Godfrey *Toronto, Ontario*
Milton E. Harris *Toronto, Ontario*
Donald Resnick, C.A. *Toronto, Ontario*
Barrie Rose, C.A. *Toronto, Ontario*

AUDITORS Clarkson Gordon & Co.

SOLICITORS Goodman and Goodman

REGISTRAR AND TRANSFER AGENT
Guaranty Trust Company of Canada

BANKER Canadian Imperial Bank of Commerce

HEAD OFFICE 1139 Shaw Street, Toronto

ADMINISTRATION OFFICES
318 Arvin Avenue
Stoney Creek (Hamilton) Ontario L8E 2M2

Plants, Divisions and Subsidiary Companies

Fabrication and Supply-Reinforcing Steel . . . J. Harris & Sons, Limited

Fabrication, Supply and Erection-
Structural Steel . . . . Frankel Structural Steel Limited

Saunders Form Hardware
and Industrial Wire Products . . . . Laurel Steel Products Limited

Concrete Post-tensioning and
Reinforcing Steel Erection . . . . VSL Canada Ltd.
VSL Ltee.

Construction Equipment
Rentals . . . . Frankel Steel Construction Services Limited

Corporate Development . . . . J. Harris & Sons Developments (Middlesex) Limited

Offices and/or plants are located in Toronto, Stoney Creek (Hamilton), Windsor, London, Thunder Bay and in Halifax, Nova Scotia.

FRONT COVER

The front cover photo depicts work in progress at the new Stelco plant in Nanticoke, Ontario

1974 has been a year of exceptional progress for the Harris Companies.

As can be seen in the "Financial Highlights", all the indicators show a tremendous increase in the financial strength of our Company.

In addition, at the close of the year we completed the acquisition of Frankel Steel Construction Limited, a major structural steel fabricator based in Toronto.

In the first nine months of 1974, steel demand in Canada and around the world outran supply. Because of our Company's strong position with domestic producers, and our policy of buying premium priced steel from overseas to fill the deficiencies in Canadian production, we were able to service all of our construction contracts on schedule and continue to book new business.

The addition of welded wire mesh production as part of our 1973 expansion program came on stream only in December 1973. Excellent market penetration and profitability were achieved in 1974 for this new product and it will make a substantial contribution to profits in the future. Other new wire products which had been developed for 1974 could not be brought to market because of material shortages. However, we are now successfully marketing these products in both Canada and the U.S.

EXPANSION AIDS RESULTS

The 35% expansion in our Hamilton reinforcing steel capacity, as well as investment in new handling facilities in Windsor, London and Halifax helped improve our results in 1974, and enabled us to handle increased tonnage at improved cost.

In the 1973 Annual Report to Shareholders, I said, "All in all, 1974 should be a year when profits will reach a level which are unlikely to be sustained in subsequent years, based solely on the present Harris operations. There should be a marked increase in the Company's financial strength throughout 1974 and we should end the year with a very substantial amount of cash available for investment or acquisition. It is therefore incumbent on your Company's Management to use these additional funds to broaden the Company's earnings base so that we can attain a continuance of increased earnings in future years".

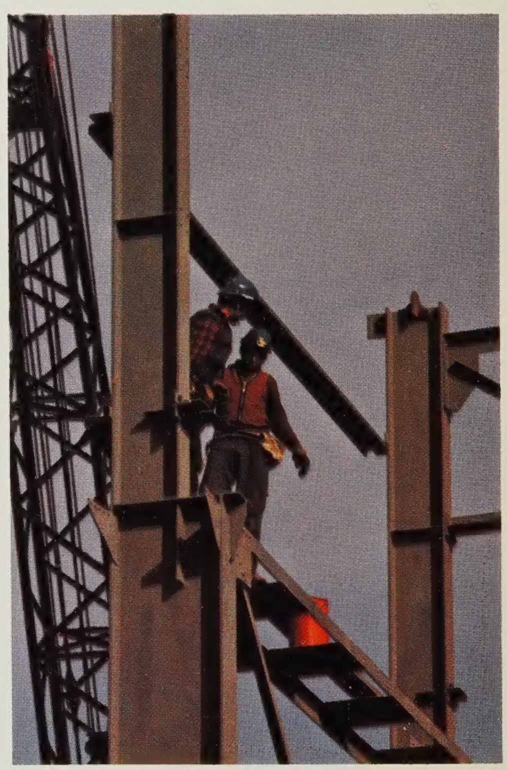
In pursuit of this policy we acquired all of the issued shares of Frankel Steel Construction Limited and associated companies in December of 1974.

STRONG EARNINGS

Frankel is the largest structural steel fabricator in Ontario and has had an unbroken history of very good profits in the steel business. Frankel has that necessary combination of technical skills which have allowed it to become pre-eminent in the fabrication and erection of high rise buildings and heavy industrial and Hydro plants. The Frankel management team, who were the vendors, have a reputation second to none in the construction industry. Each member of the Frankel management group is now a substantial shareholder in our Company.

It is our judgment that the heavy construction sector of our economy will have great strength for the next five years and beyond. The expansion programs of the major steel producers alone in that period of time will amount to billions of dollars, and Ontario Hydro intends to spend many more billions of dollars in the next ten years in expansion of energy to avoid a threatened serious shortfall of electricity in the 80's.

It is in this heavy construction area that Frankel has great market strength. This should assure Frankel of continuity



of business and excellent results for many years to come.

To quote again from my Report to Shareholders 1973, "The 1973 year-end inventory market value was at least \$2,000,000 higher than cost. This will increase profits for the first quarter and into the second quarter". This co-called "inventory profit" represented the increase in the replacement cost of steel from our suppliers and, of course, significantly raised our reported profits for the first two quarters of 1974 and for the 1974 year as a whole.

GOOD INVENTORY POSITION

We have ended the 1974 year, in both the Harris and the Frankel group of companies, with larger than normal inventories of raw materials. All of this steel has been bought for orders in hand. At year-end all items in our inventory were valued at Canadian mill replacement cost (the lowest in the world), or lower. No premium priced steel remains to be charged against 1975 earnings.

Present methods of accounting for both tax purposes and public reporting are obviously inadequate in times of rapid inflation. The added capital required to finance the higher per ton costs of inventory and the higher accounts receivable to support the resulting greater sales per ton are not reflected as operating costs in present accounting presentations. The "phantom profits" arising out of the increase in steel replacement costs are taxed by government, but the "profit" must be reinvested to maintain inventory levels. In addition, because of steeply-rising costs of plant and machinery, it is not possible to finance replacement and expansion through depreciation charges. Although our Company has always used maximum depreciation rates, these are now insufficient to replace our fixed assets at current prices.

Harris has come through 1974 in an excellent state of liquidity.

SEEKING ACQUISITIONS

The combined working capital and cash flow of the Harris and Frankel companies put us in a position to search for another major acquisition. We intend to continue our policy of looking for well-managed companies whose operations complement the total Harris group, where we can purchase asset values at reasonable prices and achieve our target return on investment.

The Harris and Frankel Companies enter 1975 with an excellent backlog of work at good prices. With new products, and expanded capacity, we are able to forecast another excellent profit performance.

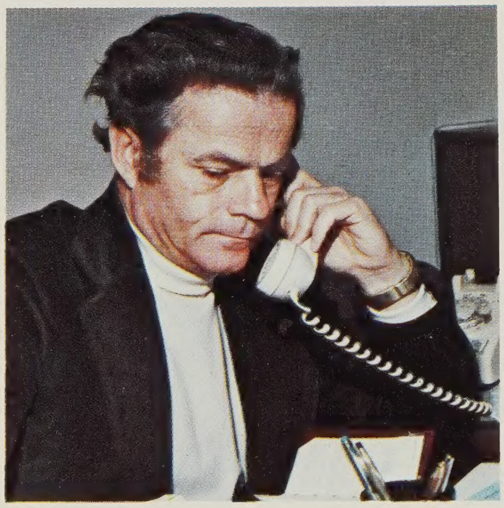
The major uncertainty in the 1975 picture must be the labour scene.

As with every area of the Canadian economy, labour's demands in our industry far exceed productivity gains and rates of inflation. The rate of increase in labour unit costs in Canada is now outstripping the unit costs of our trading partners. Canadian workers are running a serious risk of pricing themselves out of work.

Our Company has been a firm believer in incentive programs for all levels of management. The effectiveness of these incentives, when combined with a first class management and staff, has produced 1974's outstanding results.

On behalf of the Board and Shareholders, I would like to thank our whole team for a wonderful performance.

M. Harris



FRANKEL

This newly-acquired J. Harris subsidiary is one of the largest steel fabricating and erecting companies in Canada, with facilities for estimating, detailing, engineering, consultation and other phases of in-plant fabrication work.

Frankel also manufactures trademarked longspan and shortspan joists for the construction trade.

With a history dating back to 1886, Frankel has shown impressive growth and consistent earnings. Its emphasis lies in contract work in the heavy industrial and energy (hydro) fields.

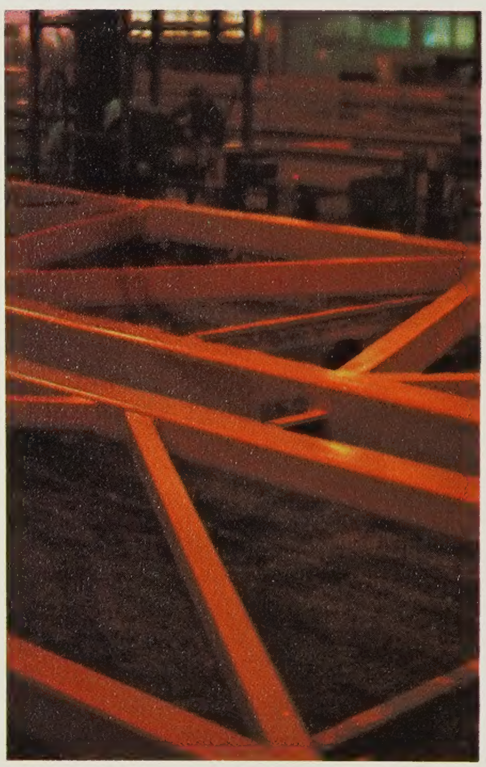
A major contract at present involves supplying of structural steel to Stelco's giant Nanticoke project in Southern Ontario. Jointly with Canron, Frankel has also been involved in the new Bank of Montreal building in Toronto. On completion this will be the tallest structure in the British Commonwealth.

Other current projects include the CNE Grandstand Stadium Expansion, the Ontario Hydro Bruce program and the Eaton Development Centre. Past projects of significance include supplying of structural steel for the Toronto subway, York Centre, the three towers of Toronto-Dominion Centre, Ontario Place and Scarborough Town Centre.

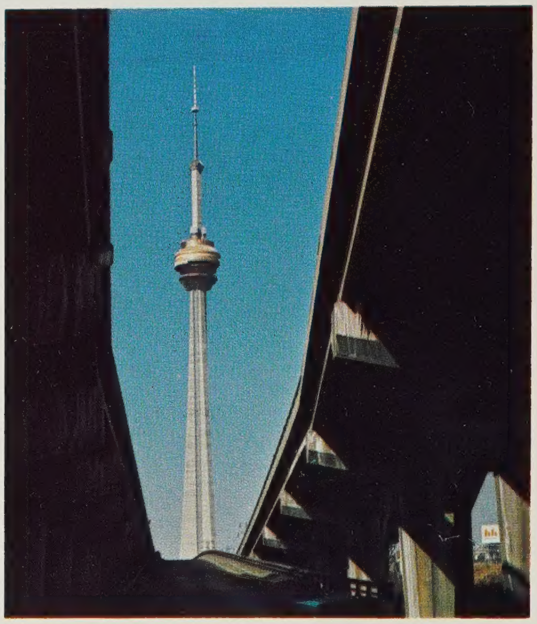
Several important benefits will result from the joining of Frankel with J. Harris.

One lies in the area of regular customers which both companies have developed for their respective product lines. With few exceptions these customers have use for both kinds of products—i.e.—a J. Harris customer for rebar and wire mesh also requires quantities of structural steel and joists. Since the same applies in reverse it is expected that the two groups of customers can be brought together to provide a greater sales base.

In 1974 Frankel had sales of about $25 million based on a 40,000 ton volume of structural steel. Its fabricating facilities in Toronto are spread over 10.4 acres, with an enclosed portion that covers 200,000 square feet.



W.J. H. Disher, chairman of Frankel Steel Construction, and Geoffrey J. Jackson, president.



Down below and up top. This describes the scope and dimension of J. Harris-Frankel construction operations. An illustration of this is project work now underway at the new Eaton Development Centre in Toronto (seen above).

At the subterranean level, J. Harris is supplying reinforcing steel bars that are a staple foundation item.

Above ground at the Eaton Centre, Frankel is supplying thousands of tons of structural steel sections which provide a basic framework.

Other photographs on these pages show typical projects which involve J. Harris or Frankel, or both.

The mammoth Stelco project at Nanticoke, seen at ground level on the facing page, involves joint products and services. For the CN Tower in Toronto (above left), J. Harris, through its subsidiary VSL Canada, supplied post tensioning work. The Hydro building program at Bruce seen on Lake Huron shores at left, and in Toronto the new Bank of Montreal building (First Canadian Tower) viewed from on high on the opposite page, represent important contracts for Frankel on a joint basis with Canron Limited.

J. Harris also manufactures steel bar supports and other metal form items used in building, and it manufactures and distributes a variety of industrial wire products. Several new product lines were successfully introduced in the latter division during 1974. They are expected to contribute to earnings in the current year.

Frankel's fabricating facilities in Toronto are capable of handling a wide range of orders. The main shop is assigned heavy structural steel columns and girders. A smaller building houses light structural and truss steel operations.

A subsidiary of Frankel handles short term rentals of erecting equipment.

J. HARRIS & SONS, LIMITED
(Incorporated under the laws of Ontario)
and its subsidiary companies

CONSOLIDATED BALANCE SHEET

ASSETS

	1974	1973
CURRENT ASSETS:		
Short-term notes	$ 639,494	
Accounts receivable	8,494,558	$4,006,332
Due from joint ventures (note 1)	1,167,219	
Inventories valued at the lower of cost or net realizable value (note 6)	10,516,796	2,811,297
Estimated value of jobs in progress less progress billings (note 1)	2,909,368	
Prepaid expenses and deposits	73,047	29,323
Mortgage receivable due within one year		47,069
Total current assets	23,800,482	6,894,021
INVESTMENTS:		
Shares in another company, at cost (Estimated market value 1974 – $168,000; 1973 – $107,000)	28,500	28,500
FIXED ASSETS, at cost:		
Land	2,689,121	71,674
Buildings	1,315,138	279,662
Machinery and equipment	6,520,950	2,178,095
	10,525,209	2,529,431
Less accumulated depreciation	4,948,947	1,230,729
	5,576,262	1,298,702
OTHER ASSETS:		
Goodwill, at cost	50,000	50,000
	$29,455,244	$8,271,223

AUDITOR'S REPORT

To the Shareholders of J. Harris & Sons, Limited:

We have examined the consolidated balance sheet of J. Harris & Sons, Limited and its subsidiaries as at December 31, 1974 and the consolidated statements of profit and loss, retained earnings and changes in financial position for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated financial statements present fairly the financial position of the companies as at December 31, 1974, the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
March 20, 1975.

CLARKSON GORDON & CO.
Chartered Accountants

DECEMBER 31, 1974
(with comparative figures at December 31, 1973)

LIABILITIES

	1974	1973
CURRENT LIABILITIES:		
Bank indebtedness	$ 628,994	$ 582,082
Accounts payable and accrued charges	5,827,190	2,172,208
Income and other taxes payable	4,662,193	1,123,204
Deferred income taxes—current portion	1,930,000	144,897
Long-term debt due within one year	867,587	105,263
Total current liabilities	13,915,964	4,127,654
DEFERRED INCOME TAXES	347,779	184,282
LONG-TERM DEBT (note 5)	5,154,960	697,368
Less amounts due within one year included with current liabilities	867,587	105,263
	4,287,373	592,105
SHAREHOLDERS' EQUITY:		
Capital (note 2)—		
Authorized:		
6,000,000 shares without par value		
Issued:		
3,253,375 shares	2,445,232	411,214
Retained earnings	8,458,896	2,955,968
	$ 10,904,128	$ 3,367,182
	$ 29,455,244	$ 8,271,223

On behalf of the Board:

[signature] Director

[signature] Director

(See attached notes)

J. HARRIS & SONS, LIMITED
and its subsidiary companies

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

	1974	1973
SALES	$40,870,665	$20,431,985
PROFIT BEFORE THE FOLLOWING	$10,996,197	$ 2,726,934
DEDUCT:		
Depreciation	296,253	227,205
Interest on long term debt	80,862	45,968
	377,115	273,173
PROFIT BEFORE INCOME TAXES	10,619,082	2,453,761
INCOME TAXES	4,780,000	1,122,200
NET PROFIT FOR THE YEAR	$ 5,839,082	$ 1,331,561
EARNINGS PER SHARE (note):		
Net profit for the year	$2.12	$.49

NOTE: The calculation of earnings per share is based on the weighted average number of shares outstanding during the period. The exercise of stock options referred to in note 2 would not result in any material dilution of earnings per share.

(See attached notes)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	1974	1973
SOURCE OF FUNDS:		
Net profit for the year	$ 5,839,082	$ 1,331,561
Charges to operations not involving an outlay of funds—		
Depreciation	296,253	227,205
Deferred income tax	135,800	50,282
Funds derived from operations	6,271,135	1,609,048
Decrease in mortgage receivable— non current portion		48,277
Proceeds from issue of shares	10,050	33,763
Proceeds of term loan (net of amounts repaid during the year)	2,977,428	697,368
	9,258,613	2,388,456
APPLICATION OF FUNDS:		
Cost of acquisition of subsidiary companies	5,760,530	
Less value of common shares issued as partial consideration	2,023,969	
	3,736,561	
Additions to fixed assets	775,082	588,110
Dividends and special taxes related thereto	336,154	105,364
Reduction of long-term debt— non current portion	532,400	183,010
	5,380,197	876,484
Increase in working capital	3,878,416	1,511,972
Working capital, beginning of year	2,766,367	1,254,395
	6,644,783	2,766,367
Working capital of subsidiaries at date of acquisition	3,239,735	
Working capital, end of year	$ 9,884,518	$ 2,766,367

(See attached notes)

YEAR ENDED DECEMBER 31, 1974
(with comparative figures for 1973)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	1974	1973
RETAINED EARNINGS, beginning of year	$2,955,968	$1,729,771
NET PROFIT FOR THE YEAR	5,839,082	1,331,561
	8,795,050	3,061,332
DEDUCT:		
Tax exempt dividends declared during year	285,743	89,559
Special taxes paid by company relating to tax exempt dividends	50,411	15,805
	336,154	105,364
RETAINED EARNINGS, end of year	$8,458,896	$2,955,968

(See attached notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. **Accounting policies**

Basis of consolidation:

The consolidated financial statements include the accounts of the company and all subsidiaries. Operating results of subsidiaries acquired during the year are included in the consolidated financial statements from their date of acquisition. Investments in joint ventures are carried at cost plus the companies' share of accumulated profits to date.

Uncompleted contracts:

Estimated value of jobs in progress represent contracts in progress valued on the percentage of completion basis. Under the percentage of completion method, revenue is accrued as the work is performed, and provision is made for total anticipated losses where the estimate of total costs on a contract indicates a loss. Although the company uses its best engineering estimates, the final results of jobs in progress will necessarily be dependent upon future costs and revenues.

Fixed assets:

The company depreciates its buildings, machinery and equipment on a straight line basis and its mobile equipment on a declining balance basis at the following rates:

Buildings	10%
Machinery and equipment	10%
Mobile equipment	30%

Income taxes:

The company follows the deferral method of income tax allocation. The deferred income taxes included in current liabilities relate to jobs in progress and holdbacks receivable. Non current deferred income taxes relate to depreciation.

2. **Capital stock**

In June 1974 the company received articles of amendment which subdivided its authorized and issued shares on a three for one basis.

During the year 15,000 shares were issued for cash of $10,050 under the terms of employee stock option plans. Options are outstanding at December 31, 1974 for 24,000 shares at $1.00 per share which may be exercised between July 1, 1975 and June 30, 1979 at the rate of 6,000 shares per year.

In addition 539,725 shares were issued for $2,023,969 as partial consideration for the acquisition of the outstanding shares of Mancorp Limited (see note 4).

3. **Remuneration of directors and senior officers**

Remuneration of directors and senior officers of the company as defined by The Ontario Business Corporations Act (1970) including profit sharing bonuses, amounted to $671,350 (including $7,750 as directors' fees) in 1974 and $359,146 (including $4,500 as directors' fees) in 1973.

4. **Acquisition**

On December 5, 1974 the company acquired all of the outstanding shares of Mancorp Limited, a holding company which, in turn, owns all of the shares of Frankel Steel Construction Limited. Frankel Steel Construction Limited and its subsidiaries are engaged in the fabrication and erection of structural steel in the construction industry, mainly in Ontario. The total purchase price of $5,760,530, which equalled the fair value of the underlying net tangible assets of Mancorp Limited and its subsidiaries at the date of acquisition, was satisfied by the issue of 539,725 shares of the company valued at $2,023,969 and cash of $3,736,561.

5. **Long-term debt**

An analysis of the companies' long-term debt is as follows:

	1974	1973
Term bank loans (collateralized by demand notes and secured by accounts receivable and certain fixed assets)—		
Due 1981, $500,000 repayable annually	$3,500,000	
Due 1980, $360,000 repayable annually (note 7)	1,540,000	
Due 1980 (refinanced during 1974)		$ 697,368
6-1/2% -9% mortgages due in annual amounts to 1988	114,960	
	5,154,960	697,368
Less amounts due within one year included with current liabilities	867,587	105,263
	$4,287,373	$ 592,105

6. **Inventories**

Inventories consist of the following:

	1974	1973
Raw materials	$10,013,132	$ 2,612,321
Work-in-progress	84,003	65,450
Finished goods	419,661	133,526
	$10,516,796	$ 2,811,297

7. **Subsequent events**

(a) Subsequent to the year-end a term loan of $1,540,000 due in 1980, of which $1,180,000 is classified as long-term debt on the attached balance sheet, was paid off in full.

(b) Subsequent to the year-end the company agreed to sell certain of its redundant land holdings with a carrying value of $798,893 at an amount in excess of such carrying value.

Management team at J. Harris & Sons includes Glen Riddel, left, Vice President, Manufacturing; Jim Wilson, Vice President of Marketing; Ernie Neiser, Manager of Field Operations; John Prosser, General Manager, VSL Limited; Bert Baradziej, Manager of Sales; Bruce Timmerman, Vice President of Finance.

The acquisition of Frankel Steel has added new dimension to J. Harris operations, its management and its professional expertise.

The new combined work force of almost 1,000 employees includes a skilled technical staff of professional engineers and fabrication personnel.

It also includes two top-line management groups. They now work closely together in order to increase the J. Harris share of the construction market and to ensure that contracts are carried out efficiently and profitably.

Frankel's success through the years has been due in large part to the capabilities of its directing personnel.

The talent and diversity of this management group is borne out by its combined work experience of 180 years in the steel industry, averaging 30 years per man. Fully 126 of these combined years have been spent within the Frankel organization.

The Frankel group is a welcome addition to a J. Harris management team which has also established its credentials through impressive growth of J. Harris, and increased penetration of the parent company in the construction field.

Management session at Frankel Steel includes W.J.H. Disher, chairman, in foreground. Left to right, Victor Skof, Vice President of Engineering; Frank Johnson, Vice President, Operations; W. George Harrison, Vice President, Administration; Maurice Charlebois, Vice President, Construction and Geoffrey J. Jackson, President.

FINANCIAL SUMMARY

	1974	1973	1972	1971	1970
Revenue	$40.9m	20.4m	15.8m	14.6m	13.0m
Profits	$5.8m	1.3m	282,968	234,822	188,646
Per Share (A)	$2.12	49¢	10.7¢	9.0¢	7.2¢
Funds Provided	$6.3m	1.6m	402,993	380,996	319,750
Per Share (A)	$2.28	60¢	15.2¢	14.5¢	12.2¢
Dividends (A)	10.2¢	4¢	3.3¢	—	1.0¢
Effective Tax Rate (including deferred)	45%	46%	48%	46%	55%
Financial:					
Assets	$29.5m	8.3m	6.04m	6.2m	5.9m
Long-term debt	$5,154,960	697,368	117,689	154,618	188,761
Current Assets	$23,800,482	6,894,021	4,983,634	5,191,477	4,720,160
Current Liabilities	$13,915,964	4,127,654	3,729,239	4,021,306	3,836,346
Working Capital	$9,884,518	2,766,367	1,254,395	1,170,171	883,814
Current Ratio	1.7:1	1.7:1	1.3:1	1.3:1	1.2:1
% Inventory to Current Assets	44%	34%	22%	33%	23%
Capitalization:					
Common Shares	$ 2,445,232	411,214	377,451	348,951	348,951
Retained earnings	$ 8,458,896	2,955,968	1,729,771	1,550,764	1,315,942
Shareholders Equity	$10,904,128	3,367,182	2,107,222	1,889,715	1,664,893
Per Share (A)	$3.97	1.25	80¢	73¢	64¢

A — Based on average number of shares outstanding after 3 for 1 split in 1974.

J. HARRIS & SONS, LIMITED